Ping An International Financial Leasing Co., Ltd.'s 2019-1 Auto Loan Asset-Backed Notes (ABNs)

Ratings

Class	Amount (CNY 10,000)	% of total assets	% of total notes	Rating
Senior A1	62,000.00	55.74	55.76	AAA_{sf}
Senior A2	25,000.00	22.48	22.48	AAA_{sf}
Senior B	10,800.00	9.71	9.71	AA^{+}_{sf}
Subordinated	13,400.00	12.05	12.05	NR
Notes (total)	**111,200.00**	**99.97**	**100.00**	—
Initial over-collateralization	29.47	0.03	—	—
Asset pool (total)	**111,229.47**	**100.00**	—	—

Note: 1. NR stands for not rated, and the same below;
2. Figures may not add up to 100% due to rounding, and the same below.

Transaction overview

Cut-off date: April 1, 2019 24:00

Legal maturity date: February 26, 2024

Type of transaction: Static cash flow ABN

Type of trust: Special-purpose trust

Underlying assets: Creditor's rights in financial leasing loans worth CNY 1,112,294,700 transferred to the Trustee by the Trustor and associated security interests

Credit enhancement mechanisms: Senior/subordinated structure, trigger mechanisms, over-collateralization, excess spread

Trustor/Originator: Ping An International Financial Leasing Co., Ltd.

Trustee/Issue vehicle management institution: Lujiazui International Trust Co., Ltd.

Asset service provider: Ping An International Financial Leasing Co., Ltd.

Fund custodian: China (Shanghai) Pilot Free Trade Zone Branch of Ping An Bank Co., Ltd.

Lead Underwriter/Bookrunner: Ping An Bank Co., Ltd.

Rating methodology and rating model adopted:

Name	Version
Rating methodology for Auto Loan Asset-Backed Securities	V3.0.201907

Note: Lianhe Ratings has publicly disclosed the aforementioned rating method and rating model at its official website.

Date of rating

September 25, 2019

Analysts

MA Li, DONG Cong, LI Kaiyan

Tel: 010-85679696
Fax: 010-85679228
Email: lianhe@lhratings.com
Address: 17/F PICC Tower, No. 2 Jianguomenwai Avenue, Chaoyang District, Beijing (100022)
Website: www.lhratings.com

Rationale

China Lianhe Credit Rating Co., Ltd. ("Lianhe Ratings") has conducted a comprehensive credit analysis on the transaction including its underlying assets, transaction structure, legal elements, and related institutions. In addition, it has also performed cash flow analysis and stress tests on the underlying assets.

The underlying assets in the transaction are creditor's rights in 18,054 financial leasing loans owned by Ping An International Financial Leasing Co., Ltd. ("Ping An Leasing"), the Trustor, toward the lessees under the leasing contracts and associated security interests. The historical data for similar assets provided by the Originator point to average performance (new car and used car loans have a 36-month expected cumulative default rate of 6.03% and 8.43%, respectively, with an average default loan recovery rate of 57.00% and 66.99%, respectively). However, assets in the pool have relatively high yield (weighted average lending rate is 13.34%), offering handsome excess spread. Both the excess spread and the interest during the period from the cut-off date to the establishment date (some CNY 69 million of interest during the six-month period accounts for about 6.26% of the initial issue) are included in the pool, providing certain credit support for the senior notes. On such a basis, the senior/subordinated structure with trigger mechanisms and over-collateralization will provide enough credit support for the senior notes. At the same time, it should be noted that since the Originator does not have a long operating history, the historical sample data provided are insufficient. Lianhe Ratings has, while conducting quantitative measurement, imposed stricter requirements on stress tests over the notes by adjusting the stress adjustment coefficient (1.2) to offset the uncertainty.

Taking all the above into consideration, Lianhe Ratings assigns AAA_{sf} to the senior A1 and senior A2 notes and AA^{+}_{sf} to the senior B notes under Ping An International Financial Leasing Co., Ltd.'s 2019-

1 Auto Loan Asset-Backed Notes.

Strengths

1. **The transaction offers considerable excess spread as well as interest during the period from the cut-off date to the establishment date.** Financial leasing loans in the pool have a weighted average lending rate of 13.34%, pointing to relatively high interest rate on the asset pool. The difference between (i) income from the asset pool and (ii) service fees paid to the relevant service providers and interest expenses incurred by the senior notes is expected to lead to excess spread. In addition, all the interest during the six-month period from the cut-off date to the establishment date (some CNY 69 million of interest accounts for about 6.26% of the initial issue amount) is included in the pool. All these factors will provide certain credit support for the senior notes.
2. **The senior/subordinated structure and initial over-collateralization provide enough credit support for the senior notes.** Specifically, senior A notes and senior B notes receive credit support of 21.78% and 12.07%, respectively.

Concerns and risk mitigation

1. Ping An Leasing's auto financial leasing segment has a relatively short operating history. Its business model, operating efficiency and risk management ability need to be further observed.
   Risk mitigation: Lianhe Ratings has imposed stricter stress tests on notes by adjusting the stress adjustment coefficient (1.2) in cash flow models to offset the uncertainty. The above risks are reflected in the ratings assigned.
2. There are many factors affecting default and recovery of a loan. The mathematical methods and related data used in quantitative analysis may lead to modeling risks.
   Risk mitigation: By raising the default rate, lowering the recovery rate and reducing spread support, Lianhe Ratings has tested the senior notes' tolerance of defaults by loan borrowers, with an aim to minimize modeling risks.
3. Once the trust takes effect, the transfer of the creditor's rights in auto financial leasing loans from the Trustor will be legally effective between the Trustor and the Trustee. In addition, the mortgage rights attached to the creditor's rights in auto financial leasing loans will be simultaneously transferred along with the creditor's rights in auto financial leasing loans. However, the mortgage rights held by the Trustee may not be effective against bona fide third parties before the mortgage rights is registered under the Trustee's name.
   Risk mitigation: This transaction has set up a redemption clause for non-conforming assets. In the event that the mortgage held by the Trustee is not effective against bona fide third parties, the Trustor will redeem the corresponding asset as agreed. Lianhe Ratings will closely monitor the due diligence of the Trustor and the Trustee and their ability to perform the contracts.
4. Given a weak global economic recovery and complex externalities, China's economy faces continued downward pressure. Systematic macroeconomic risks may affect the overall credit performance of the asset pool.
   Risk mitigation: Lianhe Ratings has already taken into account factors as a consequence of systemic macroeconomic risks such as rising default rate and falling recovery rate of the underlying assets when adjusting the parameters of the default models. The above risks are reflected in the ratings assigned.